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FISCAL IMPACT STATEMENT

LS 6352 | **NOTE PREPARED:** Jan 5, 2011
BILL NUMBER: SB 417 | **BILL AMENDED:**

SUBJECT: Individual Income Tax Deduction.

FIRST AUTHOR: Sen. Kruse | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL | **IMPACT:** State & Local
DEDICATED
FEDERAL

Summary of Legislation: This bill provides an individual income tax deduction for amounts allowed as a deduction from federal adjusted gross income for investment interest paid on indebtedness on real property that is not a qualified residence. It removes outdated individual income tax adjustments.

Effective Date: January 1, 2012.

Explanation of State Expenditures: The Department of State Revenue (DOR) will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the new deduction. The DOR's current level of resources should be sufficient to implement the new deduction.

Explanation of State Revenues: *Summary*: The bill will reduce revenue from the individual adjusted gross income (AGI) tax. by allowing a taxpayer to deduct from AGI interest paid on indebtedness relating to the taxpayer's investment in real property, which interest does not qualify for the federal mortgage interest deduction. Based on estimates of the federal investment interest expense deduction attributable to Indiana taxpayers and assuming 50% of this deduction is for interest relating to real property investments, the revenue loss from this deduction could range from $8 M to $10 M annually.

Background Information: Under federal income tax, individual taxpayers are allowed an itemized deduction from federal AGI for investment interest expenses relating to investment in various property, including real property that is not eligible for the itemized deduction for mortgage interest expenses. The bill would allow Indiana taxpayers to deduct from Indiana AGI, the interest expenses relating to investments in real property only. Based on federal income tax statistics reported by the Statistics on Income Division of the IRS, it is estimated from 2006 to 2008 (the latest years available) Indiana residents deducted $240 M to almost $300 M in investment interest expenses, mortgage points, and mortgage interest premiums from federal AGI. This assumes that approximately 1.8% of the national total was attributable to Indiana residents. The revenue loss estimates assume that about 50% of these deduction amounts are investment interest expenses relating to real property investments. (Note: Currently, additional data is being requested from SOI. If and when any additional data is obtained, the revenue loss estimates will be updated.) Revenue from the individual AGI tax is distributed to the state General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: Because the new deduction will decrease taxable income, counties imposing local option income taxes could potentially experience a decrease in revenue from these taxes.

State Agencies Affected: DOR.

Local Agencies Affected: Counties with local option income taxes.

Information Sources: SOI, Annual analysis of income tax returns, Fall Issue - 2001-2010.

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